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STATE PLEASE PASS TO USTR KATE DUCKWORTH
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

SENSITIVE
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E.O. 12958: N/A
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF FEBRUARY 2

REFS: SANTIAGO 94 AND PREVIOUS

¶1. (SBU) SUMMARY: This continues a series of updates on major developments in Chile's economy since the acceleration of global financial turmoil. By February 6, copper prices showed a steady rise, the Peso remained stable against the Dollar, and the stock market closed higher. Inflation fell to 6.3% in January 2009. Exports fell to \$3.7 billion in December 2008. Economic activity fell again to 0.5% in December 2008. Experts forecast GDP will grow 3.4% for 2008. Chile's external investment fell by 37% in 2008. Fewer Chileans are traveling abroad (Embassy NIV's are down 30%), but an influx of Argentines and others has increased local tourism revenue by 9%. END SUMMARY.

Copper Prices Show Steady Rise

¶2. (U) On the London Metals Exchange, copper closed up for the fifth consecutive day at approximately \$1.56/pound on February 6, up by nearly 11% from its close on January 30. Chile's largest copper mine, Escondida, run by BHP Billiton, lost \$772 million in the third quarter of 2008.

Chilean Peso Remains Stable Against Dollar

¶3. (U) On February 6, the observed exchange rate closed at approximately 616 Chilean Pesos to 1 U.S. Dollar (a negligible appreciation of less than 1% from the close on January 30).

Stock Market Moves Up

¶4. (U) The IPSA closed at 2671.84 on February 6, up almost 5% on the close of January 30.

Inflation Falls Again

¶5. (U) For the third straight month, there was a drop in the inflation rate. On February 6, the National Institute of Statistics (INE) reported that the Consumer Price Index decreased in January by 0.8% compared with December (the lowest value for January since 1966). The CPI grew at an annualized rate of 6.3%. The decrease was again more than expected and credited to falling fuel, transport, and retail prices. In remarks to the press, Interior Minister Perez Yoma (Acting President while President Bachelet and

much of the GOC is on vacation) said the development was a piece of "very good news" and hinted that it might cause the Central Bank to reduce its key interest rate again.

Exports Drop Significantly

¶16. (U) According to Chile's export promotion agency, ProChile, exports in December 2008 fell to \$3.7 billion, their lowest level since February 2006. December's totals decreased by 17% when compared with the month before and 24% when compared with December ¶2007. The drop is credited to lower production of copper and falling demand in Chile's major export destinations such as Japan, China, South Korea, the U.S., and the EU. Copper exports alone were 46% lower in December than their yearly average of \$1.7 billion/month.

Economic Activity Slows Further

¶17. (U) The Central Bank reported February 5 that the index of economic activity (Imacec) grew by only 0.5% in December 2008 when compared with the same month in 2007. December's Imacec was at its lowest level since 1998, during the Asian Crisis. When compared with November 2008, seasonally-adjusted economic activity actually fell by 1.1%. The slow-down in activity was credited to the poor performance of mining and industry. Economic analysts forecast Chile's annual GDP growth would be 3.4% for 2008 (official numbers for GDP will not be released until March 23 by the Central Bank).

Investment Outside of Chile Decreases

¶18. (U) Santiago's Chamber of Commerce (CCS) reported February 3 that Chile's investment in other countries was approximately \$2.9 billion for 2008. This represents a 37% decrease from the level of external investment in 2007. Peru was Chile's first destination for investment, representing 26% of the total sum. Latin America accounted for 87% of the total. Following Peru in order, were Colombia, Argentina, and Pakistan as Chile's other destinations for investment.

President Bachelet Prioritizes Employment

¶19. (U) Minister Perez Yoma informed the press that President Bachelet would cut short her vacation to participate in a key meeting of the GOC's employment committee on February 9. That same evening, she was scheduled to depart on a trip to Central America, including stops in Honduras and Cuba. The committee will meet to consider several Government projects aimed at boosting employment.

Effects of Crisis on Tourism

¶10. (U) International tourism in Chile seems to be weathering the effects of the global financial crisis. The National Tourism Service (Sernatur) reported recently that the number of "long-distance" travelers to Chile (mostly from North American and Europe) fell by 10% for January 2009 when compared with January ¶2008. However, during the same month tourism is up by 6.4% compared to the year before. The increase comes mostly from a surge in Argentine tourists to Chile (up more than 22%). Tourists have spent an estimated \$289 million, a 9% increase from 2008.

¶11. (SBU) However, tourism out of Chile has seen a significant dip. Anecdotal evidence from sources at Santiago's airport indicates fewer Chileans are traveling outside of South America than in previous years. Sernatur reports a more than 18% drop in trips by Chileans outside of Chile during January (one of the prime vacation months). Chilean tourist agencies are offering 10-40% discounts on popular packages. Embassy's Consular Section reports that Non-Immigrant Visa cases for December-January are down 30% when compared with levels last year and the year before.

SIMONS